

Before The  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY  
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2010-4

REVISED RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO FOLLOW-UP QUESTION POSED BY PSA -- ERRATA  
(August 27, 2010)

On August 13, 2010, the Postal Service provided its response to a follow-up question posed by the Parcel Shippers Association (PSA) in a pleading filed on August 11, 2010. In footnote 12 of its initial comments filed on August 17, PSA identified apparent discrepancies in the analysis underlying the Postal Service's response. Upon review, PSA is correct that the original response needs to be revised. A revised response is attached, which completely replaces that filed on August 13.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 27, 2010

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
FOLLOW-UP QUESTION OF PARCEL SHIPPERS ASSOCIATION**

**Q.** Please refer to your response to POIR No. 4, Question 3a, where it states that “[u]sing FY09 billing determinants instead of FY08 billing determinants, however, would suggest that the May 2009 price increase for NFM/Parcels was only about 3 percent, rather than 16 percent.”

(a) Please provide (in electronic format) all calculations underlying your estimate that the May 2009 price increase for NFM/Parcels was only about 3 percent when calculated using FY09 billing determinants

**RESPONSE:**

Subsequent review, based on concerns raised in footnote 12 of the initial comments of PSA filed on August 17, 2010, reveals that the 3 percent figure stated in the response to POIR No. 4, Question 3.a was not based on the correct set of prices implemented in May of 2009. When the correct set of prices implemented in May of 2009 (as well as the correct set of prices implemented in May of 2008) is inserted into the price index spreadsheets previously filed as part of USPS-R2010-4/8 and USPS-R2010-4/NP3 in connection with Mr. Masse’s Statement, there are a variety of consequences. For starters, as shown in cell F135 of tab “May, 2009” in the attached Excel spreadsheet (Rev.PSA.Stnd.Parcels.Prices.xls), the actual magnitude of the May 2009 price increase for Standard Parcels/NFMs, when measured using FY09 billing determinants, was 14 percent, rather than 3 percent. But the changes also affect the volume and revenue forecasts results presented by Mr. Masse for this category in FY10, FY11BR, FY11AR (Jan), and FY11AR(Oct). Those revised volume and revenue forecasts are presented in another Excel spreadsheet (Rev.PSA.Stnd.Parcels.Vols.xls) attached electronically to this response. The corrected before-rates and after-rates price indices are also presented in that spreadsheet. Lastly, a third attached Excel spreadsheet (Rev.PSA.Stnd.Parcels.Financials.xls) indicates the effects of these changes by showing what the Standard Parcels/NFM line would have looked like in the

**REVISED 8/27/10**

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FY10, FY11BR, FY11AR(Jan), and FY11AR(Oct) Masse attachments (Attachments 9, 10, 11, and 12, respectively), if the original volume and revenue forecasts were replaced with those based on the correct previous prices for this category. For purposes of this exercise, the previous attributable costs per piece in the Masse attachments were multiplied by the new volumes in each scenario to generate the corresponding new levels of attributable costs, from which were then generated new estimates of cost coverage.

A hardcopy version of the Financials spreadsheet table appears as the last page of this response. Several elements of this table merit comment. First, the implicit change in revenue-per-piece from the FY09 CRA level of 93.1 cents to the new FY10 level of 98.4 cents is approximately 5.7 percent. (Recall that PSA initiated this discussion by noting that the corresponding implicit change in the original Masse attachments was only 1.5 percent.) In part, this figure (5.7 percent) is lower than the size of the May 09 increase measured using FY09 billing determinants (the 14 percent mentioned at the beginning of this response) because the FY09 rev/pc in the FY09 CRA already reflected almost 5 months of the higher (May 09) prices. In part, the difference also reflects some level of mail mix changes. Additionally of note are the estimated cost coverages for the product. The before-rates cost coverages -- FY10, FY11BR -- go up, driven essentially by higher rev/pc, while the after-rates cost coverages -- FY11AR(Jan), FY11AR(Oct) -- go down, driven essentially by lower rev/pc.

**REVISED 8/27/10**

**ATTACHMENT TO 8/27/10 REVISED POSTAL SERVICE RESPONSE TO PSA FOLLOW-UP QUESTION**

STANDARD MAIL Not Flat-Machinables and Parcels										
		Revenue (in millions)	Volume (in millions)	Attributable Cost (in millions)	Volume Variable Cost (in millions)	Product Specific Cost (in millions)	Revenue \$ (per piece)	Attributable Cost \$ (per piece)	Contribution \$ (per piece)	Cost Coverage
Masse (as Revised, Aug. 6, 2010)										
FY10	27	\$625	662	\$804	\$804	\$0	\$0.945	\$1.215	-\$0.270	77.8%
FY11 BR	27	\$673	714	\$866	\$866	\$0	\$0.943	\$1.214	-\$0.270	77.7%
FY11 AR Jan Implementation	27	\$793	688	\$837	\$836	\$0	\$1.153	\$1.215	-\$0.063	94.9%
FY11 AR Oct. Implementation	27	\$833	678	\$824	\$824	\$0	\$1.230	\$1.216	\$0.014	101.1%
Masse With Corrected Previous Prices (1)										
FY10	27	\$646	657	\$798	\$798	\$0	\$0.984	\$1.215	-\$0.231	81.0%
FY11 BR	27	\$694	706	\$857	\$857	\$0	\$0.983	\$1.214	-\$0.231	81.0%
FY11 AR Jan Implementation	27	\$772	688	\$836	\$836	\$0	\$1.122	\$1.215	-\$0.093	92.3%
FY11 AR Oct. Implementation	27	\$797	681	\$828	\$828	\$0	\$1.171	\$1.216	-\$0.045	96.3%

(1) Source: PSA.Rev.Stnd.Parcels.Vols.xls, filed 8/27/10 for Volumes and Revenues. New Att Costs derived by multiplying new volumes by Att Cost/pc.

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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